OUR FOREIGN AGRICULTURAL TRADE

AGRICULTURE INFORMATION BULLETIN NO. 312
ECONOMIC RESEARCH SERVICE • U.S. DEPARTMENT OF AGRICULTURE

Contents

Foreign Development and Trade Division

Economic Research Service

Washington, D. C.

Issued December 1966

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C., 20402—Price 15 cents

OUR FOREIGN AGRICULTURAL TRADE

Wherever you live, whatever your occupation—the condition of our foreign agricultural trade matters to you. A healthy flow of agricultural exports and imports benefits the United States and every person in it.

Agricultural exports . . .

- give the farmer a bigger market. He has come to depend more and more on foreign markets, especially for his most abundant crops.
- create thousands of off-farm jobs—in their financing, storing, packaging, processing, merchandising, and shipping.
- help relieve hunger in underdeveloped countries of the free world and aid these countries in building more vigorous economies, through our Food-for-Peace programs.

Food-for-Peace exports also help build future dollar markets for both our agricultural and industrial goods.

Agricultural imports . . .

- add spice to our daily living—both literally and figuratively. They are our only source of many spices, tea, and cocoa. They provide most of our coffee, bananas, and olives. They also supply most

OUR AGRICULTURAL IMPORTS AND EXPORTS TRAVEL 6 MAIN TRADE ROUTES

(in millions of dollars, fiscal year 1965)

U. S. DEPARTMENT OF AGRICULTURE NEG. ERS 4410-66(3) ECONOMIC RESEARCH SERVICE

of our crude natural rubber, carpet wool, and silk and a smaller proportion of other raw and finished goods.

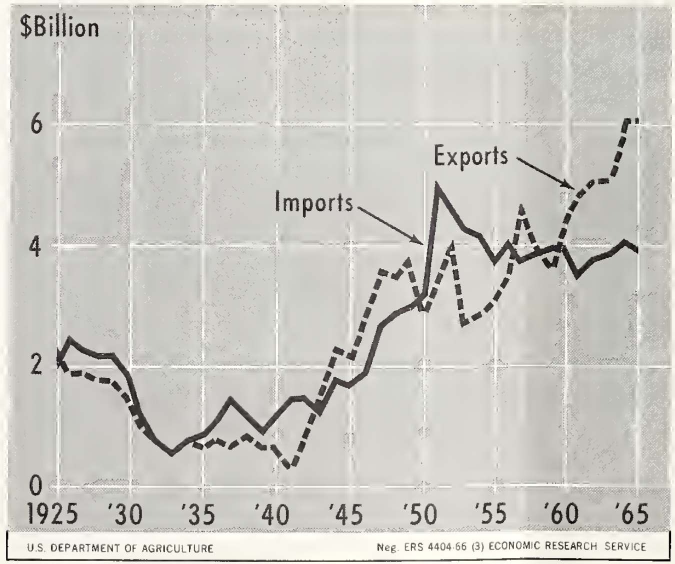
- create thousands of off-farm jobs—in their handling and distribution.

- enable foreign countries to buy our exports. We pay for our imports in dollars, which these countries can use to buy American products. Our imports from underdeveloped countries are—like our Food-for-Peace exports—helping these countries get ahead economically. As they prosper they become customers for our dollar exports.

Our **favorable agricultural trade balance**—that is, the excess of the value of exports over imports—is one of the bright spots in today's U.S. balance-of-international-payments account. Even after this balance is adjusted for exports for which no dollars were earned, it amounts to hundreds of millions of dollars annually. It helps considerably to offset some of the dollars drained from this country by

OUR FOREIGN AGRICULTURAL TRADE SINCE THE MIDTWENTIES

(fiscal years)



such outlays as defense expenditures, U.S. investment abroad, and tourist spending.

Because our foreign agricultural trade is so important to us and to the whole free world, a major objective of our Government is to keep it active, orderly, and expanding. In order to do this, our trade policies are constantly reviewed in light of changing world conditions.

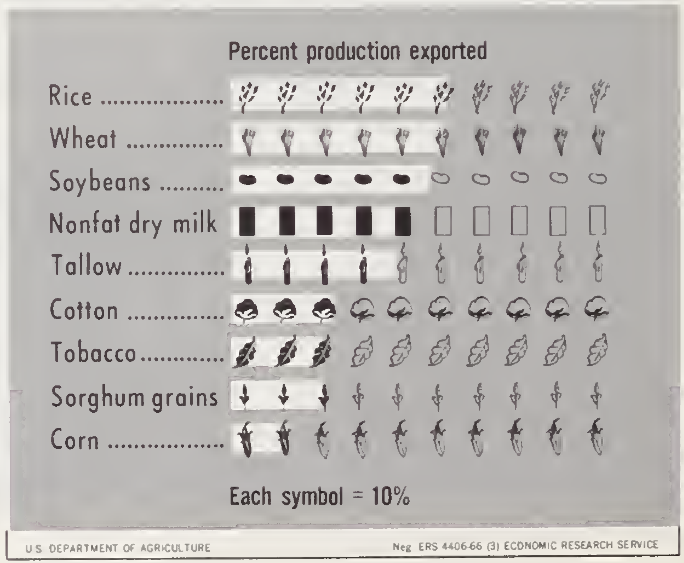
Currently, the United States continues to pursue a liberal agricultural trade policy. That is, we provide relatively unrestricted entry for imports. And we seek, through negotiation with other nations, the same easy access to their markets for our exports.

The Government is also working through various programs to expand exports and to develop new markets.

In fiscal year 1966 the value of our foreign agricultural trade was \$11.2 billion—\$6.7 billion worth of exports and \$4.5 billion worth of imports.

EXPORTS PROVIDE BIG OUTLET FOR MANY FARM PRODUCTS

(fiscal year 1965)



Agricultural exports

We export more agricultural products than any other country—one-fifth of the world's total. These exports make up one-fourth of all U.S. merchandise exports. They take the output of 1 out of every 4 harvested acres and are responsible for the employment of 1 out of every 8 farmworkers.

In recent times agricultural exports have set many record highs. From fiscal year 1960 to fiscal year 1966 their value rose nearly one-half—from $4.5 billion to $6.7 billion.

The three main reasons for this increase in farm exports—

- Increased purchasing power in customer countries. This resulted from economic growth in these countries for which generous U.S. economic aid after World War II was partly responsible.
- Export programs of the United States.
- Increased needs of other countries for agricultural imports—as they urbanize and develop into industrial countries and as their populations expand.

Methods of export

Agricultural products are exported by two main methods—commercial sales for dollars and Government-financed programs.

Commercial sales for dollars

The bulk of our agricultural exports—three-fourths—is sold for dollars through regular commercial channels.

Dollar sales were $3.2 billion in fiscal year 1960, $5.1 billion in fiscal 1966. They were responsible for over four-fifths of the rise in total agricultural exports during this period.

Exports under Government programs

Today, about one-fourth of our agricultural exports go to friendly, dollar-short, developing countries through various Government programs. These are better known as Food-for-Peace programs.

Food-for-Peace exports in fiscal year 1966 amounted to about $1.6 billion.

Most Food-for-Peace programs operate under

Public Law 480—The Agricultural Trade Development and Assistance Act of 1954. They use four major approaches: Sales for foreign currency; donations to provide disaster relief, promote economic development, or help needy persons; barter; and long-term supply and dollar credit sales.

Sales for foreign currency.—In fiscal year 1966 over half of our Food-for-Peace exports were sold for foreign currency.

By this arrangement, a foreign country can buy our surplus commodities with its own currency. This currency must be spent within the purchasing country. Much of it is lent back or granted to the country to help it develop itself economically.

Some of the foreign currency payments, however, are spent by the United States to pay its own expenses in the foreign country. These expenses may include costs of maintaining an embassy, military outlays, research programs, and costs of programs to develop markets for our agricultural products. These expenditures are considered dollar earnings (or savings) because they replace dollars we would spend otherwise.

Donations.—Foreign donation programs accounted for nearly one-fifth of the fiscal year 1966 Food-for-Peace exports. Under these programs food was donated to friendly countries for emergency relief and for the promotion of their economic development. Some of these donations were made to foreign countries and some to needy individuals through voluntary agencies and international organizations.

Barter.—About 15 percent of our fiscal year 1966 Food-for-Peace exports moved under the barter system. Under this system, agricultural commodities were traded for various kinds of assets abroad.

Some of these assets were goods and services that Government agencies would otherwise have bought abroad for dollars.

Long-term dollar credit sales.—Since late 1961 some of our Food-for-Peace exports have been sold for dollars on long-term credit. Sales agreements may provide for delivery of certain U.S. commodities over periods up to 10 years and repayment periods up to 20 years. Buyers may be governments of friendly nations or U.S. or foreign private trade.

EXPORT PAYMENT ASSISTANCE HELPS MOVE FARM PRODUCTS

(in millions of dollars, fiscal year 1965)

Sales under this program accounted for about one-tenth of our Food-for-Peace exports in fiscal year 1966.

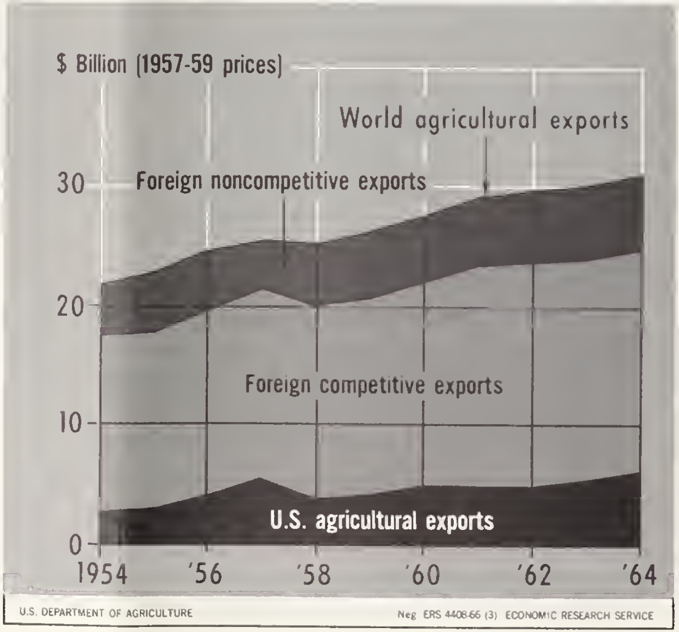
In addition to increasing our dollar exports, these sales help develop foreign markets for our agricultural commodities and assist in the development of the economies of friendly nations. Sales of the commodities in the recipient countries earn local currencies, which are used to finance social and economic development projects agreed on by the foreign government and the United States.

Export payment assistance

Some price-supported commodities get export payment assistance from the Government. The purpose of this assistance is to make the prices of the commodities competitive in world trade.

Such assistance may be needed for certain price-supported commodities when domestic prices are higher than world prices. Assistance amounts to a payment to the exporter that bridges the gap between the world price and the domestic price, enabling him to offer the commodity in foreign trade

OUR FARM EXPORTS FACE STIFF COMPETITION



at the lower export market price.

Export payment assistance, which is not included in the value of our exports, amounted to about $600 million in fiscal year 1966. It benefited over $1 billion worth of commercial dollar exports and slightly over $1 billion worth of exports under Government-financed programs.

Exporters may receive assistance in three forms. Until August 1966, many export payments were made in kind—that is, in a given amount of an eligible commodity from Government stocks. In August, the Commodity Credit Corporation discontinued most payments-in-kind programs and resumed cash payments. Exporters also may be allowed to buy the commodity to be exported from Government stocks at less than the domestic market price.

Export payment assistance programs are operated in conjunction with domestic price support and production adjustment programs.

In fiscal year 1966, wheat (including flour), cotton, and rice were the principal commodities assisted. Other commodities that received assistance included grain sorghums, nonfat dry milk, butter

and milkfat products, cheese, flaxseed, linseed oil, peanuts, and a relatively small quantity of poultry.

The Department of Agriculture establishes the export payment rates, revising them as necessary—to comply with changes in agricultural legislation and to meet changing supply and export demand situations.

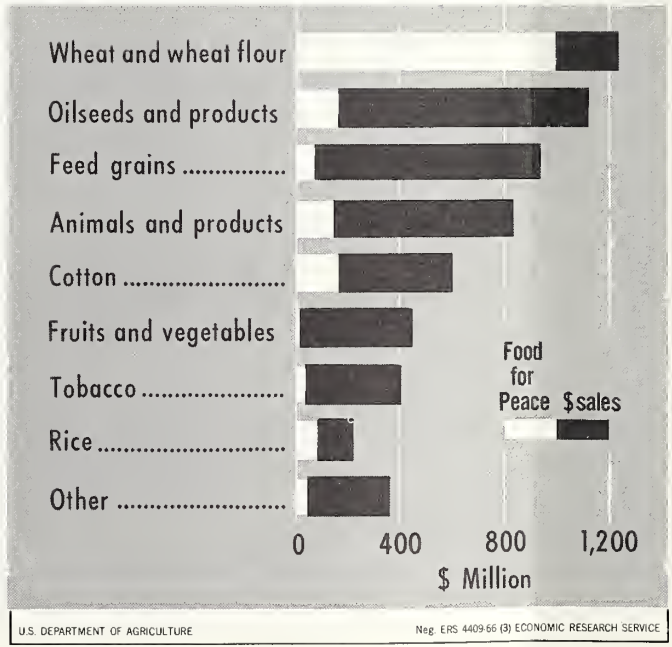
Commodities exported

Year after year, our most important exports have been cotton, wheat, tobacco, and feed grains. In recent years, rice, vegetable oils, and soybeans have also become major exports. Exports of animal products, fruits, and vegetables are also large.

In fiscal year 1966, the leading exports sold for dollars through regular commercial channels were: Corn, soybeans, animals and products, wheat, fruits, tobacco, cotton, grain sorghums, oil cake and meal, rice, and tallow.

Leading commodities exported under Government-financed programs were: Wheat and wheat flour, vegetable oils, tobacco, cotton, grain sorghums, rice,

WHAT WE EXPORT
(fiscal year 1965)



nonfat dry milk, and corn.

Every region of the country—in fact, nearly every farm community—produces agricultural products for export. The regional shares of the major exports in fiscal year 1964 are shown in the chart on page 11; each share was estimated on the basis of the region's share of total production for the year.

Customer countries

Our exports go to more than 150 countries. In fiscal year 1966 more than half went to the top six outlets—Japan, India, Canada, Netherlands (a major transshipment market), United Kingdom, and West Germany.

Japan was by far our best dollar customer and India by far the leading recipient of our Food-for-Peace exports.

Export-expansion programs

Programs to expand our agricultural exports are geared to the two marketing worlds. One world has enough dollars—or currencies that can be converted to dollars—with which to buy. The other has not.

To the first market—the industrialized countries—we try to expand our sales for dollars through regular commercial sales.

With the second market—the developing countries—we also try to increase commercial trade. In addition, we use Food-for-Peace programs to help these countries meet their food import needs and to develop economically so that they can become bigger dollar customers.

Expanding commercial dollar sales

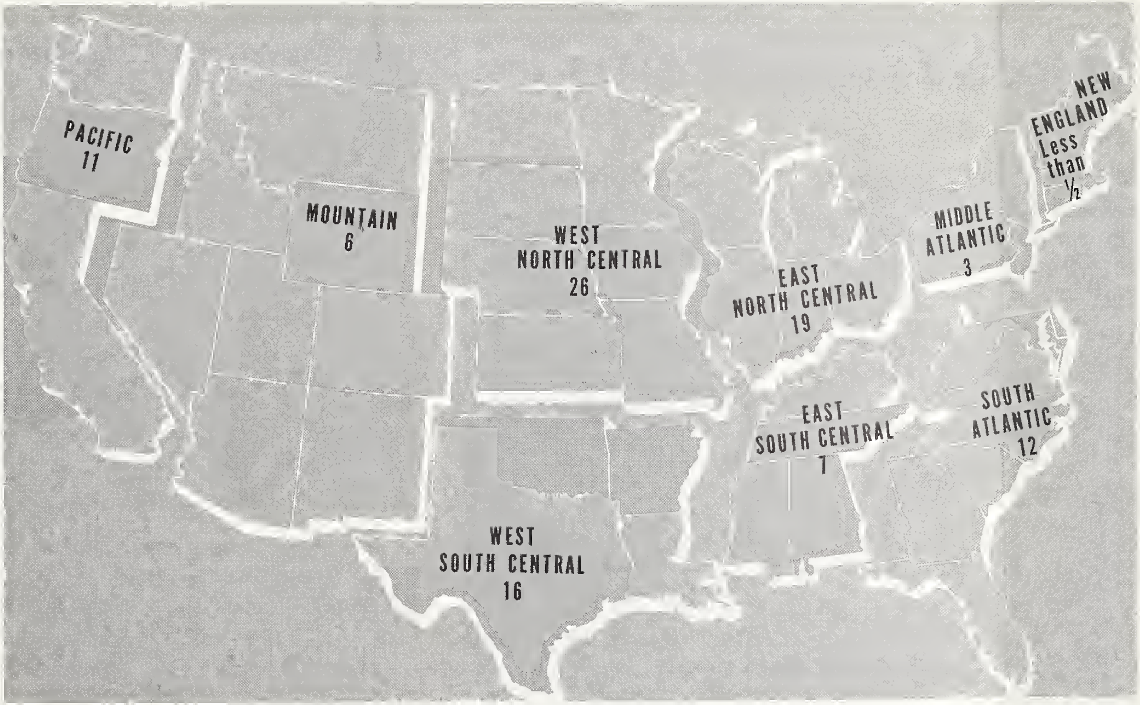
People who work in or with agriculture—in production, marketing, and the Government—give first priority to measures that will expand commercial dollar sales.

Reducing trade barriers.—A basic, long-term goal is trade liberalization.

We cannot expand, or even maintain, markets in foreign countries if our products cannot enter those countries easily. One way of impeding imports is to impose high charges on them; such charges may

HOW U.S. REGIONS SHARE IN AGRICULTURAL EXPORT TRADE

(percent of farm exports produced in region, fiscal year 1964)



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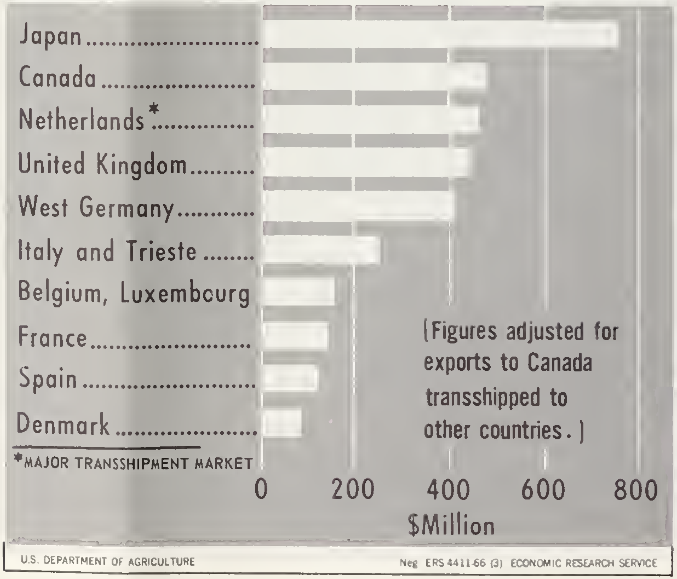
10 LEADING DOLLAR CUSTOMERS FOR OUR FARM EXPORTS

(fiscal year 1965)



be high tariffs or variable levies set to maintain a high domestic price level. Other ways of impeding imports include setting up import quotas and exchange controls, imposing unnecessarily stringent health regulations, and use of bilateral (two-party) agreements.

Since 1934 the United States Government has been working with other nations for mutual reductions of tariffs and other trade barriers. Since 1947, such negotiations have been carried out principally within the framework of the General Agreement on Tariffs and Trade (GATT). Today GATT has 67 full member countries; 13 other countries are associated with it in other capacities. These 80 nations account for most of the world's agricultural trade.

Export payment assistance.—This payment assistance, already described on page 7, is used to help maintain our share of the world market for certain price-supported commodities.

Market-development programs.—The U.S. Department of Agriculture has several programs designed

to develop foreign markets for specific agricultural products.

Among these are promotion programs carried out cooperatively by the Department and various trade organizations. These programs expand exports in such ways as: introducing a new product to a foreign market; developing a new market for a product not previously exported; and breaking into a foreign market where competitive conditions are extremely difficult.

Another type of export promotion carried out by the Department and trade groups is the exhibition of agricultural products at international trade fairs and permanent overseas trade centers. These exhibits give millions of persons a chance to see our agricultural merchandise.

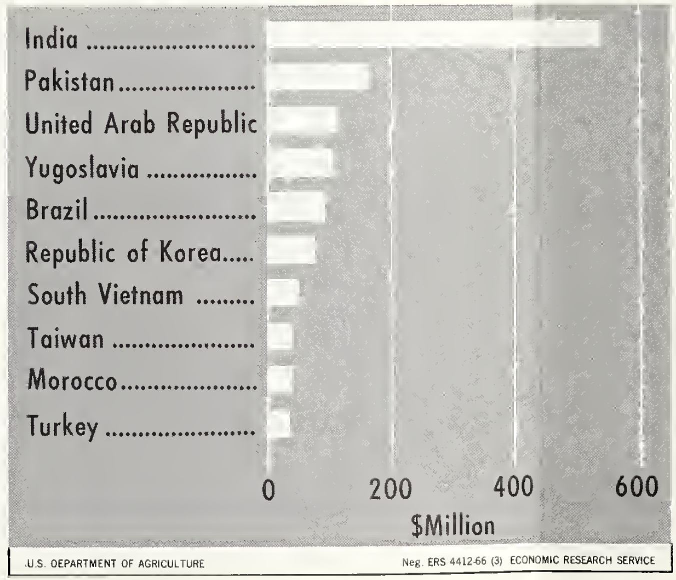
Food-for-Peace programs

Despite the growing need for food imports in most of the developing countries of the world, the expansion of our Food-for-Peace exports to them is limited by several considerations.

One is that the countries to which we export the

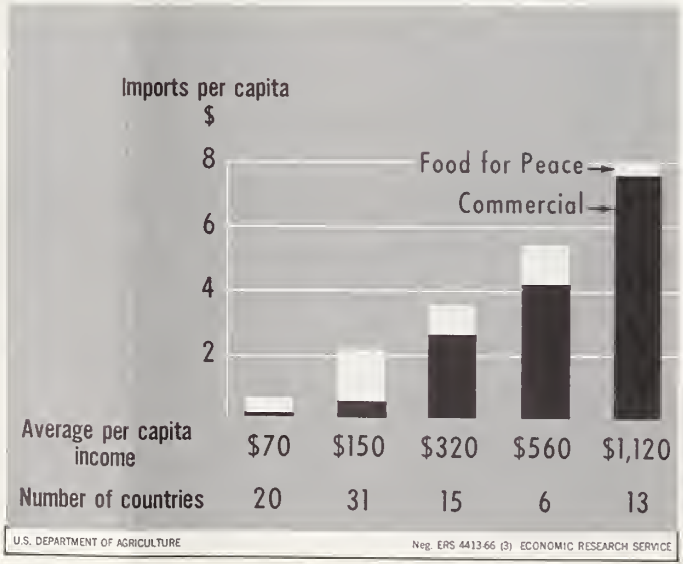
10 LEADING RECIPIENTS OF OUR FOOD-FOR-PEACE EXPORTS

(fiscal year 1965)



INCOME AND IMPORTS OF U.S. FARM PRODUCTS

85 countries, 1959-1961



bulk of these commodities often lack marketing facilities for handling and distributing the imported food. Another is that customary eating habits in some of these countries keep people from making use of the foods we have for export.

In addition, Food-for-Peace exports must be handled so they do not replace commercial sales of the United States or of nations friendly to us, or disrupt normal patterns of trade. Furthermore, they must not disadvantage the farmers who produce competitive products in the countries we are trying to help.

These exports bring long-run benefits to our export market by stimulating the economic growth of the countries that receive them. As a country grows economically it becomes a better customer.

A recent study measured the extent to which we are helping ourselves when we contribute to the economic development of a country. From 1938 to 1959-61, countries increased their imports from us —both agricultural and industrial—an average of about 12 percent for each 10-percent increase in per capita income; they increased their agricultural

imports from us about 11 percent for each 10-percent increase in per capita income. The percentage increase in imports was greatest in the less-developed countries.

This study also indicates that, in the future, markets for a greater and greater share of our agricultural production will depend on the rate of economic progress in other countries. Since the greatest market potential for agricultural products is in the developing countries, it is to our own interest to help promote economic growth in these countries.

Regional trade groups

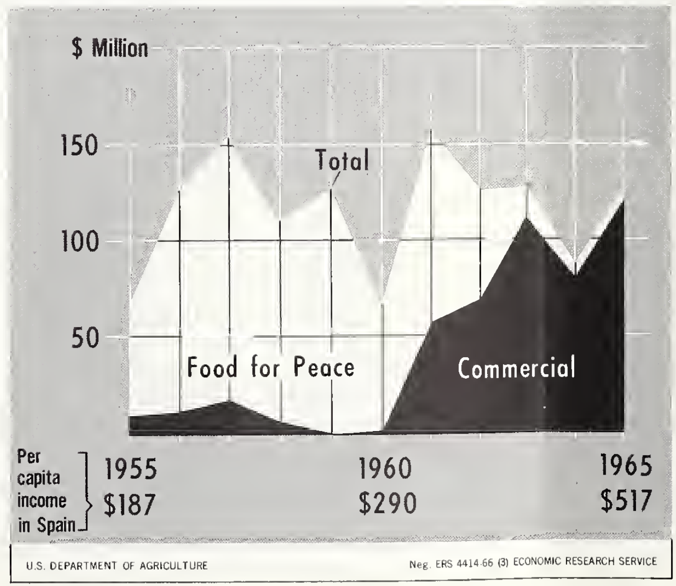
A development that has complicated our agricultural export transactions has been the rise of various trade groups throughout the world since the late 1950's. Today most of our best customers belong to such regional economic groups.

Countries join regional trade groups to better their trading position through unified action. Their unions are of three kinds:

- Free trade area. Trade between member

OUR FARM EXPORTS TO SPAIN 1955-65

(fiscal years)



countries is free from tariffs, levies, and other trade restrictions. Each member has its own trade-regulating schedule on imports from nonmembers.

- Customs union. Trade between members is free from tariffs, levies, and other trade barriers. All members have a common external tariff on imports from nonmembers.

- Common market. Free trade between members. A common external tariff on imports from nonmembers. Free movement of resources, capital, and labor among member countries.

European economic community.—The EEC, also called the European Common Market or simply the Common Market, is the most important of the trade groups to us. Its member countries are Belgium, France, West Germany, Italy, Luxembourg, and Netherlands.

This group of countries has for years been our best customer for agricultural exports. It takes almost one-third of our commercial sales for dollars. We, in turn, get only about 7 percent of our agricultural imports from Common Market countries. In fiscal year 1966 our favorable agricultural trade balance with EEC was $1.3 billion.

The EEC was established by the Treaty of Rome, which entered into force on January 1, 1958. This treaty provides for full economic unity of member countries by July 1, 1968. As unity is accomplished—through the elimination of trade barriers among members and the establishment of a single external tariff—other countries will find it harder to sell to EEC countries.

Agricultural exporters to EEC will doubtless find their difficulties increasing as EEC takes more rigorous measures to support and protect the agriculture of its member countries. We have already felt the effects of one such measure—the imposition in 1962 of variable levies on imports of wheat, feed grains, pork, poultry, and eggs. This action has retarded our exports of some forms of all these commodities except feed grains. Wheat flour, eggs, and slaughtered poultry have been particularly hard hit.

Variable levies give the EEC farmer protection from all import price competition. They are, in

effect, simply the difference between the domestic price and the price at which the exporter offers his product when it comes into the country. If the exporter lowers his price, the levy rises.

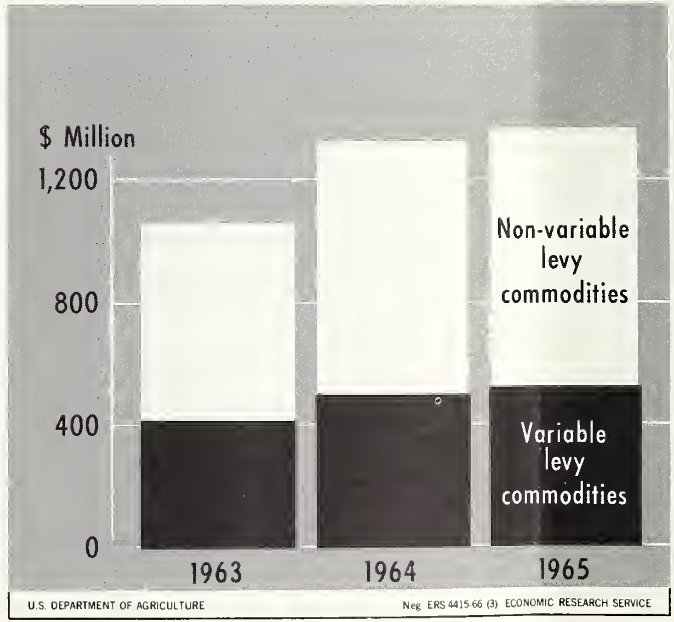
Another development potentially troublesome to U.S. exporters of agricultural products is the preferential trading arrangements EEC is making one at a time with other countries. Presently EEC countries trade preferentially in one way or another with associate members Greece and Turkey and with a number of African countries.

Other trade groups.—Numerous other trade groups have been formed throughout the world since the establishment of EEC.

The three with which we do the most business are the European Free Trade Association (7 Western European countries), the Latin American Free Trade Association (7 South American countries), and the Central American Common Market (5 countries).

OUR FARM EXPORTS TO EEC

(fiscal years)



Agricultural imports

We are second only to the United Kingdom as an importer of agricultural products.

In fiscal year 1966, we bought one-sixth of the world's total—for $4.5 billion. This was about one-fifth of the value of all U.S. imports.

Since the mid-1950's, the volume of agricultural imports has increased, but much less than exports. Total value of imports has increased only slightly.

Our statistics on the value of agricultural imports are based on prices at the point of export. They do not include, therefore, the cost of getting these products to the United States—an expense currently estimated at about 10 percent of the total import value.

Products imported

Coffee is our biggest import by far, accounting for over one-fourth of the total. Next are cane sugar and meat and meat products.

Complementary imports

Slightly less than half our imports are classed as complementary to our own farm production. That is, they do not compete with U.S. products because they are not grown here in commercial volume.

Leading complementary imports are coffee, crude natural rubber, bananas, cocoa beans, carpet wool, tea, spices, and cordage fibers.

Since the 1950's, complementary imports have increased in volume but decreased in value. Their share of the total value of imports has decreased from an average of 57 percent in the years from 1950 to 1954 to about 44 percent in fiscal year 1966.

Supplementary imports

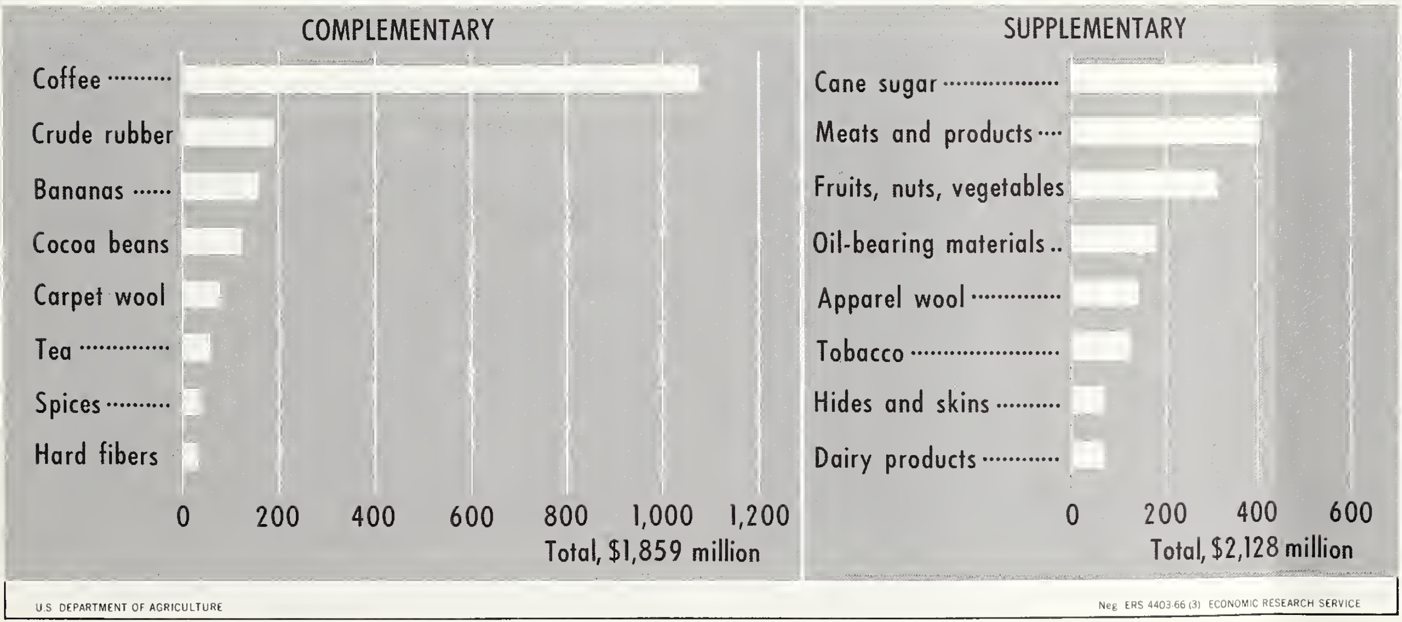
Slightly more than half our imports today are classed as supplementary—or partially competitive with our own farm production.

Besides cane sugar, meat, and meat products, the leading supplementary imports are oilseeds and products, apparel wool, tobacco, fruits, and vegetables.

These imports are considered partially rather

OUR LEADING AGRICULTURAL IMPORTS

(fiscal year 1965)



than wholly competitive with domestic production for various reasons. Some, such as fruits and vegetables, are imported mostly at seasons when our own production is low. Some, such as certain specialty cheeses, certain types of hides and skins, and various types of oriental tobacco, are varieties or types not produced here in enough volume to meet domestic demand.

Since the 1950's supplementary imports have increased in volume, in value, and as a share of our total imports. In 1950-54, they made up 43 percent of total import value; in fiscal 1966 their share was 56 percent.

Supplier countries

We import agricultural commodities from more than 150 countries. Of these, 12 supply more than half our imports.

Important among both our major and minor suppliers are newly developing countries whose economies are predominantly agricultural. Many of these countries depend heavily on sales of their main crop or crops to the United States market.

Since the late 1950's our imports from the Latin American countries and from Canada have declined. Imports from Asia, Europe, Africa, and Oceania have increased.

Latin American countries are still our leading suppliers, however, accounting for over two-fifths of our total imports. Much of their decline from 52 percent of the total in 1958 to 41 percent in fiscal 1966 was the result of a decline then discontinuance of trade with Cuba after 1960.

Regulating imports

In general, the United States is a liberal importer of agricultural products.

It imposes no duty or only a minimum duty on imports that do not compete with our own farm output. Even for competitive products, duties are kept relatively low and few nontariff measures are used.

Like other countries, the United States has regulations to keep out foreign pests and diseases and

adulterated, misbranded, poisonous, or hurtful foods.

Tariffs

About half our agricultural imports come in duty free. On the others average import duties are relatively low. In fact, farmers in this country have less protection from competitive imports than have farmers of most other countries.

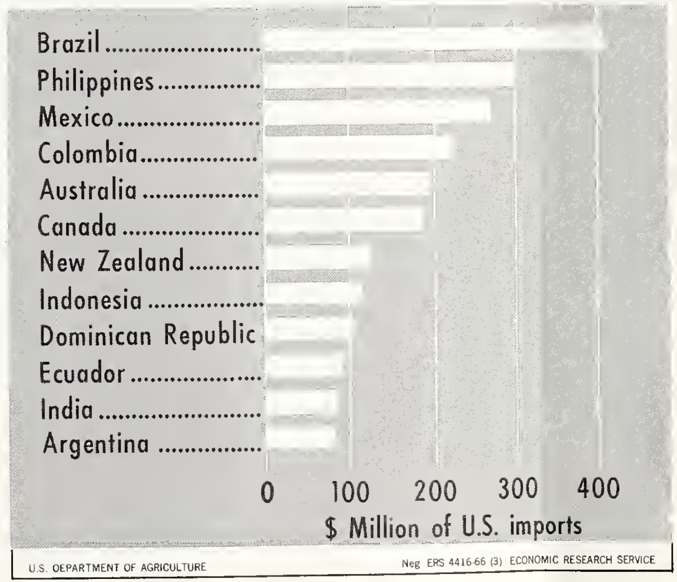
The average duty on our agricultural imports is less than the average duty on our nonagricultural imports.

For the most of its history the United States has had no tariffs or low tariffs on agricultural imports. The exception was the period from 1921 to 1934, during which three successive, increasingly protective tariff laws were in effect.

During this period nations to which we exported retaliated with tariffs on the products they normally imported from us. During 1931 to 1934—when the most protective tariff law on agricultural imports was in effect—our exports averaged $0.8 billion a

12 LEADING SUPPLIERS OF OUR AGRICULTURAL IMPORTS

(fiscal year 1965)



year. In the preceding 4 years they had averaged $1.8 billion per year.

Since 1934 the United States has steadily been reducing its tariff rates on agricultural products. In that year, the Trade Agreements Act was passed, under which we could negotiate agreements with other countries to reduce our tariffs if they reduced theirs. From 1934 to 1962 the average duty rate on dutiable farm products was reduced from 85 percent to 11 percent.

In 1962, the Trade Expansion Act replaced the Trade Agreements Act. The new act, which will be in effect until June 30, 1967, strengthens the President's hand in negotiating trade agreements—particularly in dealing with EEC. Soon after the passage of this act, the United States proposed a new round of GATT trade negotiations to liberalize trade. This conference, known as the Kennedy Round, was begun May 4, 1964, and is still in session.

Nontariff restrictions

Under certain conditions, imports of some agricultural products are restricted by nontariff measures. An act of Congress authorizes the President to impose a quota or a fee, in addition to an import duty, when imports of a product tend to impair agricultural price-support programs.

Commodities for which imports are currently controlled by quotas or fees include wheat, flour, cotton, certain manufactured dairy products, sugar, and peanuts.

Another law authorizes the President to impose quotas to regulate imports of certain meats, if necessary. So far, such regulation has not been needed.

Sugar imports are regulated under legislation that assigns a quota to each of a large number of countries—that is the specific amount of sugar each country may ship to the United States. This legislation, which also regulates domestic sugar marketings, stabilizes the supply and price of sugar in the United States. Foreign suppliers normally receive a price greater than the world market price.

Agricultural trade balance

In calendar year 1965 for the sixth year in a row, the United States had a favorable agricultural trade balance. That is, the value of exports exceeded the value of imports.

During these years, the balance grew more favorable—from \$1.0 billion in 1960 to \$2.2 billion in 1965.

Improvement in the agricultural trade balance resulted from the rapid rise of the value of agricultural exports, which greatly exceeded the slight increase in value of imports. By 1965, dollar sales alone exceeded imports by nearly \$700 million.

These dollar sales helped considerably in offsetting the drain of U.S. dollars to other countries in 1965. Additional help came from some of the proceeds of our agricultural exports under Government programs. Such proceeds included the foreign currency payments that were used to defray U.S. Government expenses abroad, goods and services received for some of our bartered products, and repayments made with interest on long-term credit purchases of our commodities.

Altogether, these agricultural export dollar sales and dollar earnings (or savings) amounted to \$5.1 billion in 1965. Our agricultural imports amounted to \$4.1 billion. The difference in our favor was \$1.0 billion. Had it not been for this favorable balance, our total \$1.4-billion unfavorable balance-of-payments deficit would have been nearly 75 percent greater.

The U.S. balance-of-payments computation is a record of total payments going out of a country and total receipts coming in. It includes both Government and private transactions. Some of the important items in the computation are: Merchandise transactions (which include agricultural trade), tourist spending, military expenditures abroad, private capital investments, and U.S. Government grants and capital transactions.

Our unfavorable balance of payments has caused serious concern since 1958, mainly because of the resulting decline in our supply of monetary gold.

Our willingness to convert dollars into gold at a fixed price is a cornerstone of the free world's monetary system. As our gold supply dwindles, serious monetary and trade problems arise both for us and for our friends abroad.

One of the steps being taken to reduce our balance-of-payments deficit is a drive to increase agricultural exports for dollars.

Currently we are seeking ways to expand our agricultural dollar exports still further. Some of the ways suggested by economic studies are:

- Stimulating increased buying power in developing countries.
- Expanding market development programs.
- Reducing foreign tariffs and other trade barriers.
- Increasing the availability of short- and long-term credit.